

**CITY OF ROCHESTER, MINNESOTA**  
**BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

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**CITY OF ROCHESTER, MINNESOTA**  
**STATEMENT OF NET ASSETS**  
December 31, 2002

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,116,040	\$ 13,948,454	\$ 16,064,494
Investments	110,459,382	20,316,200	130,775,582
Receivables (net of allowance for uncollectibles)	16,901,835	6,201,060	23,102,895
Internal balances	983,309	(983,309)	
Due from other governmental units	6,901,257	33,394	6,934,651
Accrued utility revenues		3,164,509	3,164,509
Restricted cash and investments	119,696	12,392,111	12,511,807
Restricted assets		286,658	286,658
Inventory	93,764	5,124,943	5,218,707
Prepaid and other assets	8,724	2,473	11,197
Deferred charges		629,138	629,138
Capital assets, net	206,347,169	196,368,578	402,715,747
Total Assets	<u>343,931,176</u>	<u>257,484,209</u>	<u>601,415,385</u>
<b>LIABILITIES</b>			
Accounts and contracts payable	1,877,590	6,411,603	8,289,193
Deposits payable	1,344,758	407,307	1,752,065
Accrued interest payable	430,162	360,508	790,670
Accrued compensation and payroll taxes	1,852,246	698,773	2,551,019
Accrued claims	2,273,944	190,000	2,463,944
Due to other governmental units	688,361	314,917	1,003,278
Deferred revenue		1,240,541	1,240,541
Noncurrent liabilities:			
Due within one year	22,673,535	3,516,605	26,190,140
Due in more than one year	20,747,264	53,622,264	74,369,528
Total Liabilities	<u>51,887,860</u>	<u>66,762,518</u>	<u>118,650,378</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	168,724,953	153,952,827	322,677,780
Restricted for:			
Airport	3,294,861		3,294,861
CDBG loans	2,869,773		2,869,773
Library	98,273		98,273
Civic music endowment	21,423		21,423
Debt service	3,056	222,388	225,444
Service territory acquisitions		286,658	286,658
Flood control	21,316,861		21,316,861
Sales tax authorized projects	23,868,745		23,868,745
Unrestricted	<u>71,845,371</u>	<u>36,259,818</u>	<u>108,105,189</u>
Total Net Assets	<u>\$ 292,043,316</u>	<u>\$ 190,721,691</u>	<u>\$ 482,765,007</u>

See Notes to the Financial Statements

**CITY OF ROCHESTER, MINNESOTA**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2002

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
Governmental activities:				
General government	\$ 5,851,253	\$ 489,957	\$ 17,447	\$ 830,355
Public safety	24,902,138	4,059,986	1,799,846	65,600
Public works	9,151,080	362,252	10,895	20,827,011
Airport	3,361,247	2,194,399	212,859	2,347,589
Transit	2,147,409	89,054	1,898,851	19,477
Culture	6,205,147	281,685	856,108	8,832
Park and recreation	10,965,066	4,666,340	53,563	1,095,167
Economic development/tourism	1,822,976	39,000	788,538	1,583,327
Community reinvestment/unallocated	669,016			
Interest on long-term debt	1,949,974			
<b>Total governmental activities</b>	<b>67,025,306</b>	<b>12,182,673</b>	<b>5,638,107</b>	<b>26,777,358</b>
Business-Type activities:				
Parking	2,846,621	3,403,739	6,922	
Electric utility	80,739,625	90,633,880		1,339,950
Water utility	4,280,928	5,707,107		
Sewer utility	8,491,759	8,985,231		
<b>Total business-type activities</b>	<b>96,358,933</b>	<b>108,729,957</b>	<b>6,922</b>	<b>1,339,950</b>
<b>Total</b>	<b>\$ 163,384,239</b>	<b>\$ 120,912,630</b>	<b>\$ 5,645,029</b>	<b>\$28,117,308</b>
General revenues:				
General property taxes				
Tax increments				
Sales tax				
Nonproperty taxes				
Grants and contributions not restricted to specific programs				
Interest earnings				
Net (decrease) in the fair value of investments				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

See Notes to the Financial Statements

FORM A-2

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (4,513,494)		\$ (4,513,494)
(18,976,706)		(18,976,706)
12,049,078		12,049,078
1,393,600		1,393,600
(140,027)		(140,027)
(5,058,522)		(5,058,522)
(5,149,996)		(5,149,996)
587,889		587,889
(669,016)		(669,016)
(1,949,974)		(1,949,974)
<u>(22,427,168)</u>		<u>(22,427,168)</u>
	\$ 564,040	564,040
	11,234,205	11,234,205
	1,426,179	1,426,179
	<u>493,472</u>	<u>493,472</u>
	13,717,896	13,717,896
<u>(22,427,168)</u>	<u>13,717,896</u>	<u>(8,709,272)</u>
20,474,967	229,529	20,704,496
3,052,017		3,052,017
7,921,644		7,921,644
3,076,488		3,076,488
11,798,019	32,939	11,830,958
4,773,255	1,604,523	6,377,778
(179,625)	(37,800)	(217,425)
715,046	87,445	802,491
8,622,994	(8,622,994)	
<u>60,254,805</u>	<u>(6,706,358)</u>	<u>53,548,447</u>
37,827,637	7,011,538	44,839,175
<u>254,215,679</u>	<u>183,710,153</u>	<u>437,925,832</u>
<u>\$ 292,043,316</u>	<u>\$ 190,721,691</u>	<u>\$ 482,765,007</u>

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**CITY OF ROCHESTER, MINNESOTA**  
**FUND FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

**CITY OF ROCHESTER, MINNESOTA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
December 31, 2002

	General	Construction Improvement	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 667,242	\$	\$ 272,599	\$ 939,841
Investments	14,179,398	74,002,984	6,616,900	94,799,282
Accrued interest receivable	292,544	528,100	58,700	879,344
Accounts receivable (net of allowance for uncollectibles)	466,541	1,703,163	944,238	3,113,942
Loans receivable		2,016,003	2,869,773	4,885,776
Taxes receivable delinquent	95,585	318,153	64,632	478,370
Special assessments receivable deferred		7,318,414		7,318,414
Special assessments receivable delinquent	16,903	29,074	4,547	50,524
Utility connection charges receivable deferred		41,165		41,165
Due from other funds	1,114,213	2,990,139	6,364	4,110,716
Due from other governmental units	1,934,968	3,556,488	1,395,613	6,887,069
Advances to other funds	222,395	5,703,842		5,926,237
Prepaid items	8,411		313	8,724
Restricted cash	21,423		98,273	119,696
Inventory	93,764			93,764
<b>TOTAL ASSETS</b>	<b>\$19,113,387</b>	<b>\$98,207,525</b>	<b>\$12,331,952</b>	<b>\$129,652,864</b>
<b>LIABILITIES AND FUND BALANCE</b>				
Liabilities:				
Accounts and contracts payable	\$ 346,221	\$ 1,012,342	\$ 518,883	\$ 1,877,446
Deposits payable	326,405	230,656	269,444	826,505
Accrued payroll and payroll liabilities	1,446,182		388,245	1,834,427
Accrued compensated absences	299,728		56,136	355,864
Due to other funds	285,490	2,890,996	174,757	3,351,243
Due to other governmental units	187,903	219,660	279,693	687,256
Advances from other funds		3,899,915	2,026,322	5,926,237
Deferred revenue	112,488	9,496,453	2,938,952	12,547,893
<b>Total Liabilities</b>	<b>3,004,417</b>	<b>17,750,022</b>	<b>6,652,432</b>	<b>27,406,871</b>
Fund Balance:				
Reserved for:				
Restricted assets	21,423		98,273	119,696
Prepaid items	8,411		313	8,724
Interfund advances	222,395	5,703,842		5,926,237
Encumbrances	748,039	8,529,597	31,163	9,308,799
Debt service			3,056	3,056
Airport		525,970		525,970
Flood control		21,316,861		21,316,861
Sales tax authorized projects		23,868,745		23,868,745
Unreserved, designated	6,132,858		1,430,965	7,563,823
Unreserved, undesignated, reported in:				
General fund	8,975,844			8,975,844
Capital projects fund		20,512,488		20,512,488
Special revenue funds			4,115,750	4,115,750
<b>Total Fund Balance</b>	<b>16,108,970</b>	<b>80,457,503</b>	<b>5,679,520</b>	<b>102,245,993</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$19,113,387</b>	<b>\$98,207,525</b>	<b>\$12,331,952</b>	<b>\$129,652,864</b>



**CITY OF ROCHESTER, MINNESOTA**  
**RECONCILIATION OF NET ASSETS IN THE**  
**GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES**  
**IN THE FUND BASIS FINANCIAL STATEMENTS**

December 31, 2002

Amounts reported for governmental activities in the statement of net assets are different because:

Total governmental fund balances (page 24)		\$ 102,245,993
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental capital assets	\$ 252,273,895	
Less: Accumulated depreciation	<u>(54,864,822)</u>	
		197,409,073
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Delinquent property taxes and special assessments	\$ 528,894	
Deferred special assessments and utility connection agreements	7,359,579	
Loans receivable	<u>4,659,420</u>	
		12,547,893
Internal service funds are used by management to charge the costs of equipment, information technology and insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		
		23,335,454
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds and notes payable	\$ (37,671,641)	
Compensated absences	(5,442,719)	
Accrued interest	(430,162)	
Unamortized bond issuance costs	<u>49,425</u>	
		<u>(43,495,097)</u>
Net assets of governmental activities (page 19)		<u><u>\$ 292,043,316</u></u>

**CITY OF ROCHESTER, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2002

	General	Construction Improvement	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
General property taxes	\$ 10,601,838	\$ 2,270,895	\$ 7,319,838	\$ 20,192,571
Tax increments		1,508,365	1,543,652	3,052,017
Sales tax		6,468,818	1,452,826	7,921,644
Special assessments		1,221,268		1,221,268
Utility connection and availability		1,831,062		1,831,062
Nonproperty taxes	3,076,488			3,076,488
Licenses and permits	2,181,469			2,181,469
Fines and forfeits	490,632			490,632
Intergovernmental revenues	13,621,527	5,767,867	4,439,490	23,828,884
Charges for services	2,415,542	527,805	7,095,030	10,038,377
Contributions in aid of construction		4,384,107		4,384,107
Interest earnings	432,074	3,478,009	223,211	4,133,294
Net increase (decrease) in the fair value of investments	(43,125)	(75,900)	(16,100)	(135,125)
Miscellaneous revenues	223,622	1,109,846	258,474	1,591,942
Total Revenues	<u>33,000,067</u>	<u>28,492,142</u>	<u>22,316,421</u>	<u>83,808,630</u>
<b>EXPENDITURES</b>				
General government	5,207,735			5,207,735
Public safety	23,877,840		73,903	23,951,743
Public works	8,847,715			8,847,715
Airport operations			2,383,311	2,383,311
Transit			1,948,980	1,948,980
Culture	723,586		4,627,973	5,351,559
Park and recreation			8,886,606	8,886,606
Economic development/tourism	1,134,948		685,002	1,819,950
Community reinvestment and unallocated	667,048			667,048
Debt service			3,039,660	3,039,660
Capital outlay		31,122,527		31,122,527
Total Expenditures	<u>40,458,872</u>	<u>31,122,527</u>	<u>21,645,435</u>	<u>93,226,834</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(7,458,805)</u>	<u>(2,630,385)</u>	<u>670,986</u>	<u>(9,418,204)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan proceeds		2,505,252		2,505,252
Transfers in	8,830,445	7,409,577	127,171	16,367,193
Transfers out	(1,681,354)	(5,618,249)	(499,612)	(7,799,215)
Total other financing sources (uses)	<u>7,149,091</u>	<u>4,296,580</u>	<u>(372,441)</u>	<u>11,073,230</u>
Net change in fund balances	(309,714)	1,666,195	298,545	1,655,026
Fund Balance - beginning	16,418,684	78,791,308	5,380,975	100,590,967
Fund Balance - ending	<u>\$ 16,108,970</u>	<u>\$ 80,457,503</u>	<u>\$ 5,679,520</u>	<u>\$ 102,245,993</u>

**CITY OF ROCHESTER, MINNESOTA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2002

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 26)	\$	1,655,026
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Governmental funds reported capital outlays as expenditures.

However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$	31,122,527
Depreciation expense		<u>(5,070,260)</u>
		26,052,267

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.

12,058,570

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Deferred revenue, December 31, 2002	\$	12,547,893
Deferred revenue, December 31, 2001		<u>(12,720,047)</u>
		(172,154)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences		(230,976)
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Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Loan proceeds	\$	(2,505,252)
Principal retirement on long-term debt		1,128,951
Change in accrued interest		443
Amortization of bond issuance costs		<u>(39,708)</u>
		(1,415,566)

Internal service funds are used by management to charge the costs of equipment, information technology and insurance to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities

(119,530)

Change in net assets of governmental activities (pages 20 and 21)	\$	<u><u>37,827,637</u></u>
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**CITY OF ROCHESTER, MINNESOTA**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
For the Year Ended December 31, 2002

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
General property taxes	\$ 11,941,852	\$ 10,597,329	\$ 10,601,838	\$ 4,509
Nonproperty taxes	2,800,000	2,921,934	3,076,488	154,554
Licenses and permits	1,909,336	1,909,336	2,181,469	272,133
Fines and forfeits	445,750	472,892	490,632	17,740
Intergovernmental	12,469,615	13,451,954	13,621,527	169,573
Charges for services	2,189,734	2,367,219	2,415,542	48,323
Interest earnings	540,900	540,453	432,074	(108,379)
Net (decrease) in the fair value of investments			(43,125)	(43,125)
Miscellaneous	159,018	175,653	223,622	47,969
Total Revenues	<u>32,456,205</u>	<u>32,436,770</u>	<u>33,000,067</u>	<u>563,297</u>
<b>EXPENDITURES</b>				
Current:				
General Government:				
Mayor and Council	592,268	771,739	739,384	32,355
City Administrator	417,252	417,374	425,514	(8,140)
Development District Administration	226,797	230,563	127,296	103,267
City Clerk	257,133	257,133	229,871	27,262
Elections and Voter Registration	83,644	115,663	124,832	(9,169)
Finance Department	882,435	895,914	896,430	(516)
Information Systems	697,649	697,649	641,617	56,032
City Attorney	761,806	863,180	888,842	(25,662)
Human Resources	697,108	702,585	687,743	14,842
Planning and Zoning	146,550	146,550	132,095	14,455
City Hall Maintenance	381,671	382,402	314,111	68,291
Total General Government	<u>5,144,313</u>	<u>5,480,752</u>	<u>5,207,735</u>	<u>273,017</u>
Public Safety:				
Police Department	11,496,223	11,691,580	11,478,924	212,656
Drug Enforcement Administration		17,861	15,496	2,365
Fire Department	9,881,035	9,934,014	9,546,221	387,793
Fire Hazmat Response Team	20,000	109,927	119,961	(10,034)
Building Safety	1,974,019	1,974,259	1,958,398	15,861
Animal Control	215,324	215,670	221,928	(6,258)
Police Reserve	20,055	24,844	20,512	4,332
Flood Control	315,911	363,674	363,689	(15)
Emergency Mgmt/Safety Council	152,711	152,711	152,711	
Total Public Safety	<u>24,075,278</u>	<u>24,484,540</u>	<u>23,877,840</u>	<u>606,700</u>

**CITY OF ROCHESTER, MINNESOTA**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)**

For the Year Ended December 31, 2002

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
<b>EXPENDITURES (continued)</b>				
Current:				
Public Works:				
Engineering	\$ 2,939,278	\$ 2,941,776	\$ 2,976,017	\$ (34,241)
Traffic Engineer	968,485	1,024,849	949,790	75,059
Street and Alley	4,483,349	4,486,218	4,121,707	364,511
City Lighting	762,531	764,193	800,201	(36,008)
Total Public Works	<u>9,153,643</u>	<u>9,217,036</u>	<u>8,847,715</u>	<u>369,321</u>
Culture:				
Art Center/Theatre	147,000	147,000	156,096	(9,096)
Music Department	502,815	579,173	567,490	11,683
Total Culture	<u>649,815</u>	<u>726,173</u>	<u>723,586</u>	<u>2,587</u>
Economic development/tourism	<u>799,520</u>	<u>1,343,475</u>	<u>1,134,948</u>	<u>208,527</u>
Community reinvestment				
and unallocated	<u>768,639</u>	<u>841,072</u>	<u>667,048</u>	<u>174,024</u>
Total Expenditures	<u>40,591,208</u>	<u>42,093,048</u>	<u>40,458,872</u>	<u>1,634,176</u>
Excess (deficiency) of revenues				
over (under) expenditures	<u>(8,135,003)</u>	<u>(9,656,278)</u>	<u>(7,458,805)</u>	<u>2,197,473</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	8,028,300	8,028,300	8,830,445	802,145
Transfers out	<u>(1,500,000)</u>	<u>(1,500,000)</u>	<u>(1,681,354)</u>	<u>(181,354)</u>
Total other financing sources	<u>6,528,300</u>	<u>6,528,300</u>	<u>7,149,091</u>	<u>620,791</u>
Net change in fund balances	(1,606,703)	(3,127,978)	(309,714)	2,818,264
Fund Balance - beginning	<u>16,418,684</u>	<u>16,418,684</u>	<u>16,418,684</u>	
Fund Balance - ending	<u>\$ 14,811,981</u>	<u>\$ 13,290,706</u>	<u>\$ 16,108,970</u>	<u>\$ 2,818,264</u>

**CITY OF ROCHESTER, MINNESOTA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF NET ASSETS**  
December 31, 2002

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 312,730	\$ 10,853,274	\$ 2,266,569
Investments	8,840,200		
Accrued interest receivable	80,600	219,176	
Accounts receivable	97,600	5,249,514	456,221
Accrued utility revenues		3,071,718	92,791
Inventory, material, supplies and fuel		4,966,269	155,367
Due from other funds			
Due from other governmental units	1,034		
Restricted assets		286,658	
Restricted cash		12,392,111	
Other assets		484	
Total Current Assets	<u>9,332,164</u>	<u>37,039,204</u>	<u>2,970,948</u>
Noncurrent Assets:			
Machinery and equipment			
Plant in service	27,823,810	181,840,174	23,289,701
Construction work in process	6,353	9,014,036	1,908,513
Less: Accumulated depreciation	(9,428,237)	(71,648,569)	(6,575,277)
Net property and equipment	<u>18,401,926</u>	<u>119,205,641</u>	<u>18,622,937</u>
Deferred charges and other assets		629,138	
Total Noncurrent Assets	<u>18,401,926</u>	<u>119,834,779</u>	<u>18,622,937</u>
Total Assets	<u>27,734,090</u>	<u>156,873,983</u>	<u>21,593,885</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts and contracts payable	13,504	5,382,027	821,742
Deposits payable	71,680	260,532	485
Accrued interest payable		337,191	
Accrued compensation and payroll taxes	10,150	522,728	60,839
Accrued compensated absences	44,363	1,041,439	107,641
Due to other funds	256	1,344,889	
Due to other governmental units	12,624	294,478	526
Accrued claims			
Bonds payable		1,075,000	
Notes payable		200,000	
Total Current Liabilities	<u>152,577</u>	<u>10,458,284</u>	<u>991,233</u>
Noncurrent Liabilities:			
Bonds payable		46,315,000	
Unamortized bond discount and issue costs		(300,155)	
Accrued compensated absences		761,181	58,219
Accrued claims		181,000	9,000
Deferred revenue		1,194,536	46,005
Total Noncurrent Liabilities		<u>48,151,562</u>	<u>113,224</u>
Total Liabilities	<u>152,577</u>	<u>58,609,846</u>	<u>1,104,457</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	18,401,926	84,307,909	18,622,937
Restricted for:			
Debt service			
Service territory acquisitions		286,658	
Unrestricted	9,179,587	13,669,570	1,866,491
Total Net Assets	<u>\$ 27,581,513</u>	<u>\$ 98,264,137</u>	<u>\$ 20,489,428</u>

Amounts reported by business-type activities in the statement of net assets (page 19) are different because:

Certain internal service fund assets and liabilities are included in business-type activities.

Net assets of business-type activities

FORM C-1

Enterprise Funds		Governmental
Sewer Utility		Activities-
Fund	Totals	Internal Service
		Funds
\$ 515,881	\$ 13,948,454	\$ 1,176,199
11,476,000	20,316,200	15,660,100
95,500	395,276	134,300
2,449	5,805,784	
	3,164,509	
3,307	5,124,943	
883,161	883,161	758
32,360	33,394	14,188
	286,658	
	12,392,111	
1,989	2,473	
13,010,647	62,352,963	16,985,545
		16,537,423
88,818,007	321,771,692	
2,941,155	13,870,057	
(51,621,088)	(139,273,171)	(7,599,327)
40,138,074	196,368,578	8,938,096
	629,138	
40,138,074	196,997,716	8,938,096
53,148,721	259,350,679	25,923,641
194,330	6,411,603	144
74,610	407,307	518,253
23,317	360,508	
105,056	698,773	17,819
318,162	1,511,605	
298,247	1,643,392	
7,289	314,917	1,105
		1,396,944
730,000	1,805,000	
	200,000	
1,751,011	13,353,105	1,934,265
6,890,000	53,205,000	
(101,981)	(402,136)	
	819,400	
	190,000	877,000
	1,240,541	
6,788,019	55,052,805	877,000
8,539,030	68,405,910	2,811,265
32,620,055	153,952,827	8,938,096
222,388	222,388	
	286,658	
11,767,248	36,482,896	14,174,280
\$ 44,609,691	190,944,769	\$ 23,112,376
	(223,078)	
	\$ 190,721,691	

**CITY OF ROCHESTER, MINNESOTA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET ASSETS**  
For the Year Ended December 31, 2002

		Business-Type Activities -	
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Revenues:			
Sales and charges for services	\$ 3,403,739	\$	\$ 5,377,221
Sales and charges for services, pledged as security for revenue bonds		89,294,557	
Miscellaneous		1,339,323	329,886
Total Operating Revenues	3,403,739	90,633,880	5,707,107
Operating Expenses:			
Purchased power		53,403,133	
Maintenance and operations	1,924,397	21,142,923	3,660,331
Depreciation	897,273	4,179,205	602,890
Total Operating Expenses	2,821,670	78,725,261	4,263,221
Operating Income (Loss)	582,069	11,908,619	1,443,886
Nonoperating Revenues (Expenses):			
General property taxes			
Intergovernmental revenues	7,499		
Interest earnings	339,841	762,139	80,992
Net (decrease) in the fair value of investments	(9,300)		
Interest and fiscal charges		(1,183,146)	
(Loss) on disposal of property	(19,011)		
Other income (expense)	1,793	(673,283)	92
Total Nonoperating Revenues (Expenses)	320,822	(1,094,290)	81,084
Income Before Transfers and Contributions	902,891	10,814,329	1,524,970
Capital contributions		1,339,950	
Transfers in	1,850		
Transfers out	(254,951)	(6,693,125)	(305,508)
Change in net assets	649,790	5,461,154	1,219,462
Total Net Assets - Beginning of Year	26,931,723	92,802,983	19,269,966
Total Net Assets - End of Year	\$ 27,581,513	\$ 98,264,137	\$ 20,489,428

Amounts reported by business-type activities in the statement of activities (page 21) are different because:

Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities.

Change in net assets of business-type activities



**FORM C-2**

Enterprise Funds		Governmental Activities- Internal Service Funds
Sewer Utility Fund	Totals	
\$	\$ 8,780,960	\$ 8,896,148
8,944,611	98,239,168	
40,620	1,709,829	
<u>8,985,231</u>	<u>108,729,957</u>	<u>8,896,148</u>
	53,403,133	
5,076,108	31,803,759	8,070,360
2,862,630	8,541,998	1,758,315
<u>7,938,738</u>	<u>93,748,890</u>	<u>9,828,675</u>
<u>1,046,493</u>	<u>14,981,067</u>	<u>(932,527)</u>
229,529	229,529	
32,362	39,861	
421,551	1,604,523	643,060
(28,500)	(37,800)	(44,500)
(356,979)	(1,540,125)	
(154,546)	(173,557)	(66,268)
85,560	(585,838)	2,611
<u>228,977</u>	<u>(463,407)</u>	<u>534,903</u>
1,275,470	14,517,660	(397,624)
	1,339,950	
	1,850	190,600
<u>(1,371,260)</u>	<u>(8,624,844)</u>	<u>(70,026)</u>
(95,790)	7,234,616	(277,050)
<u>44,705,481</u>		<u>23,389,426</u>
<u>\$ 44,609,691</u>		<u>\$ 23,112,376</u>

(223,078)

\$ 7,011,538

**CITY OF ROCHESTER, MINNESOTA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2002

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Cash Flows From Operating Activities:			
Cash received from customers	\$ 3,285,391	\$ 87,047,504	\$ 5,273,740
Cash received from other City funds		3,206,655	425,834
Cash received from employees			
Cash paid to employees	(205,837)	(12,006,289)	(1,266,436)
Cash paid to suppliers	(1,817,331)	(60,871,455)	(2,329,251)
Other income	1,793		
Net Cash Provided By Operating Activities	<u>1,264,016</u>	<u>17,376,415</u>	<u>2,103,887</u>
Cash Flows From Noncapital Financing Activities:			
General property taxes			
Intergovernmental revenues	7,499		
Transfers in	1,850		
Transfers out	(254,951)	(6,725,020)	(307,160)
Net Cash Provided By (Used In)			
Noncapital Financing Activities	<u>(245,602)</u>	<u>(6,725,020)</u>	<u>(307,160)</u>
Cash Flows From Capital and Related Financing Activities:			
Capital contributions		1,339,950	
Proceeds from the sale of property			
Proceeds from issuance of revenue bonds		11,194,853	
Principal payments on bonds		(719,853)	
Interest and fiscal charges on bonds		(1,858,982)	
Issuance costs of revenue bonds		(129,737)	
Facilities and service territory acquisition		(512,634)	
Acquisition of capital assets	(373,093)	(21,599,575)	(1,838,051)
Other receipts			
Net Cash (Used In) Capital and			
Related Financing Activities	<u>(373,093)</u>	<u>(12,285,978)</u>	<u>(1,838,051)</u>
Cash Flows From Investing Activities:			
Investment income	353,241	710,740	80,992
Service territory escrow payments		(256,121)	
Funds released from service territory escrow		794,660	
Net (increase) decrease in investments	(1,375,416)		
Net Cash Provided By (Used In) Invested Activities	<u>(1,022,175)</u>	<u>1,249,279</u>	<u>80,992</u>
Net Increase (Decrease) in Cash and			
Cash Equivalents	(376,854)	(385,304)	39,668
Cash and Cash Equivalents, Beginning of Year	689,584	23,630,689	2,226,901
Cash and Cash Equivalents, End of Year	<u>\$ 312,730</u>	<u>\$ 23,245,385</u>	<u>\$ 2,266,569</u>
Classified As:			
Cash and Cash Equivalents	\$ 312,730	\$ 10,853,274	\$ 2,266,569
Restricted Cash		12,392,111	
Total Cash and Cash Equivalents, End of Year	<u>\$ 312,730</u>	<u>\$ 23,245,385</u>	<u>\$ 2,266,569</u>

See Notes to the Financial Statements

FORM C-3

Enterprise Funds		Governmental Activities- Internal Service Funds
Sewer Utility Fund	Totals Current Year	
\$ 9,102,926	\$ 104,709,561	\$ 7,496,329
	3,632,489	1,384,873
(2,059,846)	(15,538,408)	
(2,841,670)	(67,859,707)	(8,256,105)
85,560	87,353	
4,286,970	25,031,288	625,097
229,529	229,529	
32,362	39,861	
	1,850	125,042
(1,371,260)	(8,658,391)	(70,026)
(1,109,369)	(8,387,151)	55,016
	1,339,950	
		63,587
	11,194,853	
(655,000)	(1,374,853)	
(357,882)	(2,216,864)	
	(129,737)	
	(512,634)	
(2,138,637)	(25,949,356)	(2,073,456)
		2,737
(3,151,519)	(17,648,641)	(2,007,132)
458,851	1,603,824	709,260
	(256,121)	
	794,660	
(946,667)	(2,322,083)	229,353
(487,816)	(179,720)	938,613
(461,734)	(1,184,224)	(388,406)
977,615	27,524,789	1,564,605
\$ 515,881	\$ 26,340,565	\$ 1,176,199
\$ 515,881	\$ 13,948,454	\$ 1,176,199
	12,392,111	
\$ 515,881	\$ 26,340,565	\$ 1,176,199

**CITY OF ROCHESTER, MINNESOTA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
For the Year Ended December 31, 2002

Reconciliation of Operating Income to Net Cash  
Provided By Operating Activities

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Income (Loss)	\$ 582,069	\$ 11,908,619	\$ 1,443,886
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation expense	897,273	4,179,205	602,890
Other income (expense)	1,793	(673,283)	92
Other		942,107	
(Increase) Decrease In:			
Accounts receivable	(97,600)	(468,669)	(58,804)
Accrued utility revenues		762,815	8,796
Inventory		1,003,055	(22,580)
Prepaid expenses		(3,140)	
Due from other funds			
Due from other governmental units	(107)	402,933	
Other assets			
Increase (Decrease) In:			
Accounts and contracts payable, operations	(110,665)	(3,785,143)	234,462
Deposits payable	(20,641)	(9,356)	240
Accrued expenses and other liabilities	12,939	3,399,528	(123,372)
Deferred revenue		(60,778)	24,358
Accrued claims		(26,000)	(6,000)
Due to other funds	7	(225,439)	
Due to other governmental units	(1,052)	29,961	(81)
Net Cash Provided By Operating Activities	<u>\$ 1,264,016</u>	<u>\$ 17,376,415</u>	<u>\$ 2,103,887</u>
Non Cash Transactions:			
Decrease in fair value of investments	\$ 9,300	\$	\$
Receipt of contributed property			

FORM C-3

Enterprise Funds		Governmental Activities- Internal Service Funds
Sewer Utility Fund	Totals Current Year	
\$ 1,046,493	\$ 14,981,067	\$ (932,527)
2,862,630	8,541,998	1,758,315
85,560	(585,838)	
	942,107	
985	(624,088)	
153,254	924,865	
3,444	983,919	
1,750	(1,390)	
(208,284)	(208,284)	(758)
(21,022)	381,804	(14,188)
(1,989)	(1,989)	
114,028	(3,547,318)	(8,961)
(10,000)	(39,757)	(114,123)
112,110	3,401,205	17,819
	(36,420)	
	(32,000)	(60,332)
147,259	(78,173)	(21,199)
752	29,580	1,051
<u>\$ 4,286,970</u>	<u>\$ 25,031,288</u>	<u>\$ 625,097</u>
\$ 28,500	\$ 37,800	\$ 44,500
		65,558

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**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

NOTE 1: Summary of Significant Accounting Policies

The financial statements of the City of Rochester, Minnesota have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the City's accounting policies are described below.

A. Reporting Entity

The City of Rochester, Minnesota (the City) is a municipal corporation, incorporated under the laws of the State of Minnesota, and governed under a charter adopted in 1904.

Component units are legally separate entities which are fiscally dependent on the primary government or for which the primary government is financially accountable. As of December 31, 2002, there were no entities that met the requirements to be considered a component unit of the City.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.



**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 1: Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, hotel-motel taxes, licenses and permits, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The *construction improvement fund* accounts for the financial resources to be used for street, sewer and water, and construction other than that financed by proprietary funds.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 1: Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The City reports the following major proprietary funds:

The *parking fund* accounts for the operation of the parking enterprise.

The *electric utility fund* accounts for the operations of the City owned electric utility system.

The *water utility fund* accounts for the operation of the City owned water utility system.

The *sewer utility fund* accounts for the operations of the City owned water reclamation plant.

Additionally, the City reports the following fund types:

*Internal service funds* account for insurance, data processing equipment and fleet management services provided to other departments of the City on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's enterprise funds and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 1: Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation  
(continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and investments

Cash balances from all funds are combined and invested to the extent available in authorized investments. Earnings from such investments are allocated to respective funds on the basis of applicable cash balance participation by each fund.

Investments are stated at fair value, based upon quoted market prices at the reporting date.

Cash and cash equivalents for purposes of the general purpose financial statements includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property tax levies are set by the City Council in December of each year and are certified to Olmsted County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1, of the following year, and are recorded as receivables by the City at that date. Revenues from property taxes are accrued and recognized in the year collectible, net of delinquencies.

Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts normally during the months of January, June and December.

Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable, net of an allowance for uncollectible taxes currently estimated at 3.0% of the outstanding balance. The net amount of delinquent taxes receivable are fully offset by deferred revenue in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

2. Receivables and payables (continued)

Assessments are levied at various times upon City Council resolution for property owner improvements made by the City. Generally, assessment collections are deferred over periods ranging from one to fifteen years with interest charges of 7.5%. Revenue from these assessments is recognized when assessed in the government-wide financial statements and as the annual installments become collectible in the governmental funds of the fund financial statements. Annual installments not collected as of each December 31 are classified as delinquent assessments receivable. Delinquent assessments receivable are carried net of an allowance for uncollectible assessments estimated at 3.0% of the outstanding balance. The net amount of delinquent assessments receivable are fully offset by deferred revenue in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

3. Inventory

The materials and supplies inventories are valued at moving average cost on a first-in, first-out basis. Fossil fuel inventories in the Enterprise Funds are valued at the lower of cost on a last-in, first-out basis, or market. Purchases are reported as expenditures when the inventory items are consumed (consumption method).

4. Restricted assets

Restricted assets are deposits held for specifically required purposes and are offset by fund balance reserve accounts.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested debt proceeds over the same period.

Property, plant and equipment are capitalized when acquired, and depreciation is provided using the straight-line method applied over the following estimated useful lives of the assets.

	Useful Life in Years
Buildings	10 - 40
Infrastructure	15 - 67
Other Improvements	5 - 40
Machinery and Equipment	2 - 20

GASB Statement No. 34 requires the City to report and depreciate new infrastructure assets effective with the beginning of the current year. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for the fiscal year ending in 2006. The City has elected to implement the general provisions of GASB Statement No. 34 in the current year and will implement the retroactive infrastructure provisions before December 31, 2006.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

6. Utility connection charges

The City enters into utility connection agreements with certain residential property owners that elect to convert to City utilities. Under these agreements, property owners may elect to pay connection charges in full or make payments to the City as special assessments over ten years as reimbursement for City made improvements. Utility connection charges are based on a flat rate per frontage foot and are limited to a maximum amount per lot based on lot size. Revenue from utility connection agreements is recognized when the City enters into agreements with property owners in the government-wide financial statements and as the charges become collectible in the governmental funds of the fund financial statements.

7. Compensated absences benefits

Vacation, sick pay and compensatory overtime are accrued when earned in the government-wide financial statements and the proprietary fund types. In the Governmental Funds of the fund financial statements, vacation, sick pay and compensatory overtime are recorded as expenditures and accrued as current liabilities during the year they would normally be liquidated with expendable available financial resources.

The City compensates employees upon termination, for one-third of their unused sick leave, after meeting certain qualifications based upon length of service and a minimum accumulation of hours. The compensation is computed at the employee's rate of pay at the time of termination, and is applied towards the cost of continuing group health and life insurance coverage. The sick leave liability is estimated based on the City's past experience of making termination payments for sick leave.

Unused vacation pay in excess of 40 hours generally expires on each employment anniversary date. Under certain conditions vacation pay will be paid upon termination in good standing. Most employees are also allowed to accumulate compensatory overtime up to a maximum of 80 hours per anniversary period. Certain other employees are allowed to accumulate compensatory overtime up to a maximum of 240 hours.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

8. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported separately and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Fund equity

In the fund financial statements, governmental fund types report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.



**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 2: Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted by Council resolution for the General and Special Revenue Funds with the exception of the Community Development Projects Fund which adopts project length budgets.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds. Formal budgetary integration is not employed for the Debt Service Funds because effective budgetary control is alternately achieved through general obligation bond indenture provisions. Budgetary control for the Capital Project Funds is based on a project completion time cycle rather than an annual basis, therefore budgetary comparisons on an annual basis would not present meaningful information.

The City follows these legal compliance procedures in establishing the budgetary data reflected in the financial statements:

1. The City Administrator submits a proposed operating budget to the City Council prior to the end of each year for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to December 28, the budget is legally enacted through the passage of a budget resolution.
4. Any changes to the budget at the functional level must be by formal resolution of the City Council. Generally, budget amendments result in utilization of contingency appropriations and do not alter the total expenditure budget of the City. Monitoring of budgets is maintained at the department level by departments or divisions. However, expenditures in excess of the departmental budget require administrative approval.
5. All budgeted appropriations lapse at the end of the fiscal year. The legal level of budgetary control (i.e. the level at which expenditures may not legally exceed appropriations) is at the functional level.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g. purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds

A. Deposits

In accordance with Minnesota Statutes, the City maintains deposits with national banks, insured state banks or thrift institutions as authorized by the City Council.

Balances at December 31, 2002 are as follows:

	Book Balances	Bank Balances
Insured or collateralized by securities held by the City or its agent in the City's name	\$ 6,946,285	\$ 19,568,953
Collateralized by securities held by the pledging Institution's trust department in the City's name	-	-
Uncollateralized or collateralized with securities not in the City's name	-	-
Total	<u>\$ 6,946,285</u>	<u>\$ 19,568,953</u>

Minnesota Statutes requires that all City deposits be insured, secured by surety bond or collateralized, and the market value of collateral pledged must equal 110% of the deposits not covered by insurance or surety bonds.

Authorized collateral includes certain state or local government obligations and legal investments described in Section B. Minnesota Statutes also require that securities pledged as collateral be held in safekeeping by the Treasurer, or in a financial institution other than the institution furnishing the collateral.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

**B. Investments**

The City is authorized by Minnesota Statutes to invest idle funds as follows:

- (a) Direct obligations or obligations guaranteed by the United States or its agencies.
- (b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (c) General obligations of the State of Minnesota or its municipalities.
- (d) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
- (e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- (f) Repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a reporting dealer to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- (g) Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.

Deposit and investment balances as of December 31, 2002 are as follows:

	Credit Risk Category			Carrying Amount
	1	2	3	
U.S. Governments	\$ 114,620,036	\$	\$	\$ 114,620,036
Municipal Bond	13,092,284			13,092,284
Totals	<u>\$ 127,712,320</u>	<u>\$</u>	<u>\$</u>	127,712,320
Investments in money market fund				<u>24,685,937</u>
				152,398,257
Deposits				6,946,286
Change Funds				7,340
Total Deposits and Investments				<u>\$ 159,351,883</u>

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

B. Investments (continued)

A reconciliation of cash and investments as shown on the Statement of Net Assets:

Cash and cash equivalents	\$ 16,064,494
Investments	130,775,582
Restricted cash and investments	<u>12,511,807</u>
	<u><u>\$ 159,351,883</u></u>

The City investments are categorized above to give an indication of the level of risk assumed at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name.

C. Due From and To Other Governmental Units

Amounts due from other governmental units as of December 31, 2002 are as follows:

<u>Fund Type</u>	<u>Federal Government</u>	<u>State of Minnesota</u>	<u>Olmsted County</u>	<u>Other</u>	<u>Total</u>
General	\$	\$ 219,033	\$ 1,514,980	\$ 200,955	\$ 1,934,968
Special Revenue	603,397	9,944	729,480	52,792	1,395,613
Capital Project	357,167	2,420,310	772,834	6,177	3,556,488
Enterprise		364	33,030		33,394
Internal Service		<u>14,188</u>			<u>14,188</u>
Totals	<u>\$ 960,564</u>	<u>\$ 2,663,839</u>	<u>\$ 3,050,324</u>	<u>\$ 259,924</u>	<u>\$ 6,934,651</u>

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

C. Due From and To Other Governmental Units (continued)

Amounts due to other governmental units as of December 31, 2002 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	Other	Total
General	\$	\$ 40,753	\$ 147,150	\$	\$ 187,903
Special Revenue	310	171,802	92,083	15,498	279,693
Capital Project		11,473	208,052	135	219,660
Enterprise		297,645	17,272		314,917
Internal Service			1,105		1,105
Totals	<u>\$ 310</u>	<u>\$ 521,673</u>	<u>\$ 465,662</u>	<u>\$ 15,633</u>	<u>\$1,003,278</u>

D. Restricted Cash and Assets

Restricted assets are deposits held for specifically required purposes and are offset by fund balance reserve accounts. Balances at December 31, 2002, and descriptions are as follows:

<u>General Fund</u>	
Civic Music Endowment:	
Rochester Area Foundation Endowment	<u>\$ 21,423</u>
<u>Special Revenue Funds</u>	
Memorials for Library Fund use:	
Walter Hurlbut Book Fund	34,040
Alice P. Mayo Trust Fund	15,721
Arthur B. Hall Memorial Fund	13,954
Clara Siem Memorial Fund	9,866
V. Huyber Memorial Fund	10,427
Norman D. Wilson Memorial Fund	14,265
Total	<u>98,273</u>
<u>Enterprise Funds</u>	
Reserve Account	3,517,468
Construction Account	8,747,495
Debt Service	127,148
Total	<u>12,392,111</u>
Total Restricted Cash	<u>\$ 12,511,807</u>
<u>Enterprise Funds</u>	
Territorial Service Acquisitions Escrow	\$ 286,658
Total Restricted Assets	<u>\$ 286,658</u>

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

D. Restricted Cash and Assets (continued)

The electric utility issued revenue bonds in 2000 and 2002 to fund the construction of electric utility improvements. Provisions of the revenue bonds require that the electric utility fund a debt service account in an amount equal to the following years bond principal and interest payments at least by the date the debt payments are due each year. In addition to the debt service account, provisions of the revenue bonds required that \$3,517,468 of the bond proceeds be deposited in a reserve account to be used to pay bond principal and interest payments if necessary. Under the terms of the revenue bonds, the bond proceeds, net of accrued interest, bond discount, and the reserve requirement, were deposited into a Construction Account to pay all construction-related costs. Any funds remaining in the Construction Account after the payment of these costs must be transferred to a debt service account.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets

Capital asset activity for the year ended December 31, 2002 was as follows:

<b>Governmental Activities</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 35,967,981	\$ 7,939,997	\$	\$ 43,907,978
Construction in progress	39,491,705	37,404,082	32,323,009	44,572,778
Total capital assets, not being depreciated	75,459,686	45,344,079	32,323,009	88,480,756
Capital assets, being depreciated:				
Buildings	105,698,357	471,539		106,169,896
Improvements other than buildings	11,187,231	553,852		11,741,083
Infrastructure		23,489,239		23,489,239
Machinery and equipment	37,295,023	3,195,394	1,560,073	38,930,344
Total capital assets, being depreciated	154,180,611	27,710,024	1,560,073	180,330,562
Less accumulated depreciation for:				
Buildings	30,627,197	3,022,646		33,649,843
Improvements other than buildings	6,501,639	432,017		6,933,656
Infrastructure		37,880		37,880
Machinery and equipment	19,918,833	3,336,032	1,412,095	21,842,770
Total accumulated depreciation	57,047,669	6,828,575	1,412,095	62,464,149
Total capital assets, being depreciated, net	97,132,942	20,881,449	147,978	117,866,413
Governmental activities capital assets, net	\$ 172,592,628	\$ 66,225,528	\$ 32,470,987	\$ 206,347,169

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

<b>Business-Type Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not being depreciated:				
Land	\$ 5,636,551	\$ 84,495	\$	\$ 5,721,046
Construction in progress	34,792,043	10,066,071	30,988,057	13,870,057
Total capital assets, not being depreciated	40,428,594	10,150,566	30,988,057	19,591,103
Capital assets, being depreciated:				
Buildings and improvements	119,103,361	2,599,375	1,273,449	120,429,287
Machinery and equipment	159,438,198	42,862,821	6,679,660	195,621,359
Total capital assets, being depreciated	278,541,559	45,462,196	7,953,109	316,050,646
Less accumulated depreciation for:				
Buildings and improvements	55,454,820	4,014,869	1,335,894	58,133,795
Machinery and equipment	82,882,287	4,527,129	6,270,040	81,139,376
Total accumulated depreciation	138,337,107	8,541,998	7,605,934	139,273,171
Total capital assets, being depreciated, net	140,204,452	36,920,198	347,175	176,777,475
Business-type activities capital assets, net	<u>\$ 180,633,046</u>	<u>\$ 47,070,764</u>	<u>\$ 31,335,232</u>	<u>\$ 196,368,578</u>



**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Depreciation expense was charged to functions/programs as follows:

**Governmental Activities:**

General government	\$ 530,786
Public safety	483,376
Public works	137,740
Airport operations	977,980
Transit	197,349
Culture	747,069
Park and recreation	1,993,992
Community reinvestment/unallocated	1,968
Internal Service Funds:	
Equipment revolving	1,569,340
Information technology	<u>188,975</u>

Total depreciation expense - governmental activities	<u><u>\$ 6,828,575</u></u>
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**Business-Type Activities:**

Parking	\$ 897,273
Electric utility	4,179,205
Water utility	602,890
Sewer utility	<u>2,862,630</u>

Total depreciation expense - business-type activities	<u><u>\$ 8,541,998</u></u>
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**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

F. Interfund Balances and Transfers

The amounts due to and due from other funds as of December 31, 2002, at the individual fund level are summarized below:

<u>Funds</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General	\$1,114,213	\$ 285,490
Special Revenue:		
Library		10,437
Municipal recreation system	6,364	115,515
Airport operations		28,930
Transit		13,511
Community development projects		6,364
Capital Project:		
Construction improvements	2,990,139	2,890,996
Enterprise:		
Parking		256
Electric utility		1,344,889
Sewer utility	883,161	298,247
Internal Service:		
Self insurance	<u>758</u>	<u>          </u>
Totals	<u><u>\$4,994,635</u></u>	<u><u>\$4,994,635</u></u>

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

F. Interfund Balances and Transfers (continued)

The amounts advanced to and advanced from other funds as of December 31, 2002, at the individual fund level are summarized below:

Funds	Advances to Other Funds	Advances from Other Funds
General Fund	\$ 222,395	\$
Special Revenue:		
Municipal Recreation System		1,803,927
Transit		222,395
Capital Project:		
Construction Improvements	5,703,842	3,899,915
Totals	<u>\$ 5,926,237</u>	<u>\$ 5,926,237</u>

Operating transfers during the year ended December 31, 2002 were as follows:

Funds	Transfers In	Transfers Out
General	\$ 8,830,445	\$ 1,681,354
Special Revenue	83,989	499,612
Debt Service	43,182	
Capital Project	7,409,577	5,618,249
Enterprise	1,850	8,624,844
Internal Service	125,042	70,026
Totals	<u>16,494,085</u>	<u>\$ 16,494,085</u>

Transfer in of general capital assets:

To Internal Service Funds from  
existing general capital assets

65,558

Total Transfers In

\$ 16,559,643

In the fund financial statements, total transfers in of \$16,559,643 are greater than total transfers out of \$16,494,085 because of the treatment of transfers of capital assets to the internal service funds. During the year existing capital assets related to governmental funds, with a book value of \$65,558, were transferred to internal service funds. No amounts were reported in the governmental funds as the amount did not involve the transfer of financial resources. However, the internal service funds did report a transfer in for the capital resources received.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

G. Operating Leases

The City is obligated under certain leases accounted for as operating leases. Lease expenditures for the year ended December 31, 2002 totaled \$134,485.

Following is a schedule by years of future minimum rental payments required under operating leases that have remaining non-cancelable lease terms in excess of one year. All scheduled rent increases are intended to cover inflationary increases in costs.

Years ending December 31:	
2003	\$ 30,638
2004	31,557
2005	32,504
2006	33,479
2007	34,483
2008 - 2012	148,593

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt

A summary of long-term debt obligations outstanding at December 31, 2002, is as follows:

	<u>Range of Interest Rates</u>	<u>Final Maturity</u>	<u>Balance 12/31/02</u>
General Obligation Bonds:			
Tax Increment Bonds, Series 1985	6.45-6.5%	2005	\$ 3,725,000
Taxable Tax Increment Bonds			
District 7, Series 1997	5.5%	2024	2,633,611
General Obligation Revenue Bonds:			
Taxable Sales Tax Revenue			
Bond of 2000	6.35%	2010	10,458,673
Temporary Sales Tax Revenue			
Bonds, Series 2000A	4.4%	2003	17,925,000
Wastewater Treatment Plant			
Refunding Bonds, Series 2001A	3.5-4.0%	2011	7,620,000
Revenue Bonds:			
Electric Utility Revenue			
Bonds, Series 2000	4.75-5.25%	2030	36,115,000
Electric Utility Revenue			
Bonds, Series 2002	3.0-4.5%	2017	11,275,000
Notes Payable:			
Electric Utility	5.56-7.70%	2003	200,000
Sales Tax Revenue Note - 2001	2.83%	2021	2,500,000
Airport Hangar - 1998	0%	2008	91,923
Airport Hangar - 1999	0%	2010	129,310
Airport Hangar - 2001	0%	2012	208,124
Compensated absences			8,129,588
Less: Unamortized discount and issuance costs			<u>(451,561)</u>
Total Long-term Debt			<u><u>\$ 100,559,668</u></u>

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

General Obligation Tax Increment Bonds

Tax Increment Bond, Series 1985, are backed by the full faith, credit and taxing power of the City and are serviced by the Debt Service Funds.

General Obligation Taxable Tax Increment Bonds

In 1997, the City authorized Taxable Tax Increment Bonds, District 7 of \$2,768,500. These bonds are structured without fixed principal maturities. Payments are equal to the amount of available tax increments received by the City within the six month period preceding each payment date. These bonds are backed by the full faith, credit, and taxing power of the City and are serviced by the Debt Service Fund.

General Obligation Taxable Sales Tax Revenue Bonds

In 2000, the City authorized Taxable Sales Tax Revenue Bonds of \$10,458,673. These bonds are structured without fixed principal maturities. The bonds are payable from revenues derived from the City's local 0.5% sales and use tax, and are backed by the full faith, credit, and taxing power of the City and are serviced by the Debt Service Fund.

General Obligation Temporary Sales Tax Revenue Bonds

In 2000, the City authorized Temporary Sales Tax Revenue Bonds of \$17,925,000. The bonds are payable from revenues derived from the City's local 0.5% sales and use tax, and are backed by the full faith, credit, and taxing power of the City and are serviced by the Debt Service Fund.

General Obligation Sales Tax Revenue Note

In 2001, the City authorized the issuance of a \$2,500,000 General Obligation Sales Tax Revenue Note to finance the construction of transportation infrastructure improvements. The funds were advanced under this note in 2002. The note is payable from revenues derived from the City's local 0.5% sales and use tax, and are backed by the full faith, credit, and taxing power of the City and are serviced by the Debt Service Fund.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

General Obligation Revenue Refunding Bonds

General Obligation Revenue Refunding Bonds are recorded as liabilities in the Sewer Utility Enterprise Fund. The bonds are payable from revenues derived from the operation of the Sewer Utility Enterprise Fund and are backed by the full faith, credit and taxing power of the City.

Revenue Bonds

Revenue Bonds are recorded as liabilities in the Electric Utility Enterprise Fund. The bonds are payable from revenues derived from the operation of the Electric Utility Enterprise Fund.

Notes Payable

The note payable recorded as a liability in the Electric Utility Enterprise Fund is payable from revenue derived from the operation of the Electric Utility Enterprise Fund.

The airport hangar notes payable are payable from airport hangar rental income.

Bond Indentures

There are a number of limitations and restrictions contained in the various bond indentures and note agreements and the City remains in substantial compliance with these requirements.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

The following is a summary of the changes in long-term debt obligations for the year ended December 31, 2002:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds and Notes Payable:					
General obligation bonds:					
Tax Increment Bonds Series 1985	\$ 4,775,000	\$	\$ 1,050,000	\$ 3,725,000	\$ 1,150,000
Taxable Tax Increment Bonds, District 7, Series 1997	2,669,380		35,769	2,633,611	
Taxable Sales Tax Revenue Bonds, Series 2000	10,458,673			10,458,673	
Temporary Sales Tax Revenue Bonds, Series 2000A	17,925,000			17,925,000	17,925,000
Note payable - Airport Hangar 1998	109,455		17,532	91,923	17,532
Note payable - Airport Hangar 1999	147,783		18,473	129,310	18,473
Note payable - Airport Hangar 2001	210,049	5,252	7,177	208,124	21,530
Sales Tax Revenue Note of 2001		2,500,000		2,500,000	101,000
Less: Unamortized Issuance Costs	(89,133)		39,708	(49,425)	
Other Liabilities:					
Compensated Absences	5,563,124	3,889,766	3,654,307	5,798,583	3,440,000
Governmental Activities Long-term Liabilities	41,769,331	6,395,018	4,822,966	43,420,799	22,673,535
<b>BUSINESS-TYPE ACTIVITIES</b>					
Bonds and Notes Payable					
General Obligation Revenue Bonds:					
Wastewater Treatment Plant Refunding Bonds, Series 2001A	8,275,000		655,000	7,620,000	730,000
Revenue Bonds:					
Electric Utility Revenue Bonds, Series 2000	36,715,000		600,000	36,115,000	630,000
Electric Utility Revenue Bonds, Series 2002		11,275,000		11,275,000	445,000
Less: Unamortized Discount	(465,295)		63,159	(402,136)	
Notes Payable	400,000		200,000	200,000	200,000
Other Liabilities:					
Compensated Absences	2,101,638	2,131,113	1,901,746	2,331,005	1,511,605
Business-type Activities Long-term Liabilities	47,026,343	13,406,113	3,419,905	57,138,869	3,516,605
Total	<u>\$ 88,795,674</u>	<u>\$ 19,801,131</u>	<u>\$ 8,242,871</u>	<u>\$ 100,559,668</u>	<u>\$ 26,190,140</u>



**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

The annual requirements to amortize long-term debt obligations outstanding at December 31, 2002, excluding accrued compensated absences and including interest payments of \$40,285,843 over the life of the debt, are summarized below:

Years	General Obligation Bonds*		General Obligation Revenue Bonds		Revenue Bonds		Other	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>								
2003	\$ 1,150,000	\$ 242,125	\$ 17,925,000	\$ 394,350			\$ 159,245	\$ 70,750
2004	1,225,000	167,375					162,245	67,892
2005	1,350,000	87,750					165,245	64,948
2006							168,245	61,920
2007							171,245	58,808
2008-2012							753,132	244,200
2013-2017							708,000	152,057
2018-2022							642,000	46,044
Totals	<u>\$3,725,000</u>	<u>\$497,250</u>	<u>\$ 17,925,000</u>	<u>\$ 394,350</u>			<u>\$2,929,357</u>	<u>\$766,619</u>
<u>Business-Type Activities</u>								
2003			\$ 730,000	\$ 279,800	\$ 1,075,000	\$ 2,413,746	\$ 200,000	\$ 11,120
2004			770,000	254,250	1,265,000	2,227,218		
2005			785,000	227,300	1,310,000	2,177,718		
2006			820,000	199,825	1,365,000	2,126,344		
2007			830,000	171,125	1,415,000	2,072,706		
2008-2012			3,685,000	367,615	8,055,000	9,416,706		
2013-2017					10,090,000	7,449,793		
2018-2022					7,040,000	5,284,094		
2023-2027					9,095,000	3,235,052		
2028-2030					6,680,000	713,212		
Totals			<u>\$ 7,620,000</u>	<u>\$ 1,499,915</u>	<u>\$47,390,000</u>	<u>\$37,116,589</u>	<u>\$ 200,000</u>	<u>\$ 11,120</u>

\*Does not include the General Obligation Taxable Tax Increment Bonds, District No. 7, Series 1997 and the General Obligation Taxable Sales Tax Revenue Bond of 2000 which are structured without fixed principal maturities.

The City is subject to statutory limitation by the State of Minnesota for bonded indebtedness payable principally from property taxes. As of December 31, 2002, the City had not utilized any of its net legal debt margin which totaled \$103,662,224.

The City has issued several conduit debt obligations. These obligations do not constitute an indebtedness of the City and are not a charge against its general credit or taxing powers. The obligations are payable solely from revenues of the respective companies to which the proceeds were remitted. The original amount of the current issues totals \$1,349,758,000 and the balance outstanding at December 31, 2002 totals \$1,149,497,725.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

Pursuant to Minnesota Statutes (Section 273.74, Subd. 6) the City is required to disclose information related to its tax increment districts. These districts represent legal boundaries that allow the City to retain all incremental growth in assessed values.

<u>District No.</u>	<u>Development District</u>	<u>Type of District</u>	<u>Date Created</u>	<u>Duration of District</u>
2	2	Redevelopment	March 13, 1979	Through 2005
2-2	2	Redevelopment	May 6, 2002	25 Years following receipt of first increment
3-1	3	Redevelopment	February 14, 1988	25 Years following receipt of first increment
3-2	3	Housing	June 5, 1989	25 Years following receipt of first increment
5-1	5	Economic	June 6, 1994	11 Years or 9 Years following receipt of first increment, whichever is less
6-1	6	Housing	September 7, 1994	To February 1, 2014
7-1	7	Redevelopment	January 22, 1997	25 Years following receipt of first increment
8-1	8	Economic	April 7, 1997	11 Years from approval of TIF plan
10-1	10	Housing	January 20, 1999	25 Years following receipt of first increment
11-1	11	Housing	July 19, 1999	25 Years following receipt of first increment
12-1	12	Housing	August 16, 1999	25 Years following receipt of first increment
13-1	13	Housing	October 18, 1999	25 Years following receipt of first increment
14-1	14	Housing	November 1, 1999	25 Years following receipt of first increment
15-1	15	Housing	April 17, 2000	25 Years following receipt of first increment
16-1	16	Redevelopment	July 17, 2000	25 Years following receipt of first increment
17-1	17	Housing	September 6, 2000	25 Years following receipt of first increment
18-1	18	Housing	September 6, 2000	25 Years following receipt of first increment
19-1	19	Housing	September 6, 2000	25 Years following receipt of first increment
20-1	20	Housing	October 1, 2001	25 Years following receipt of first increment
21-1	21	Housing	October 15, 2001	25 Years following receipt of first increment
22-1	22	Housing	November 5, 2001	25 Years following receipt of first increment
23-1	23	Housing	June 3, 2002	25 Years following receipt of first increment
24-1	24	Housing	July 15, 2002	25 Years following receipt of first increment
25-1	25	Housing	October 21, 2002	25 Years following receipt of first increment

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

Tax Increment District No. 2 was created pursuant to Minnesota Statutes Chapter 472A. All other Tax Increment Districts were created pursuant to Minnesota Statutes Chapter 469.

	Tax Increment District			
	No. 2	No. 2-2	No. 3-1	No. 3-2
Original net tax capacity	\$ 571,616	\$ 16,918	\$ 39,538	\$ 599
Current net tax capacity	2,809,222	16,918	87,390	9,269
Captured net tax capacity:				
Retained by authority	2,237,606	-	47,852	8,670
Shared with other taxing districts	-	-	-	-
Total general obligation tax increment bonds issued	23,678,300	-	-	-
Amounts redeemed	19,953,300	-	-	-
Outstanding bonds at December 31, 2002	<u>\$ 3,725,000</u>	<u>-</u>	<u>-</u>	<u>-</u>

  

	Tax Increment District			
	No. 5-1	No. 6-1	No. 7-1	No. 8-1
Original net tax capacity	\$ 22,592	\$ 100	\$ 1,191	\$ 1,161
Current net tax capacity	70,990	9,797	108,167	22,896
Captured net tax capacity:				
Retained by authority	48,398	9,697	106,976	21,735
Shared with other taxing districts	-	-	-	-
Total general obligation tax increment bonds issued	-	-	2,669,380	-
Amounts redeemed	-	-	35,769	-
Outstanding bonds at December 31, 2002	<u>-</u>	<u>-</u>	<u>\$ 2,633,611</u>	<u>-</u>

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

	Tax Increment District				
	No. 10-1	No. 11-1	No. 12-1	No. 13-1	No. 14-1
Original net tax capacity	\$ 666	\$ 3,344	\$ 1,611	\$ 280	\$ 242
Current net tax capacity	6,093	16,782	39,848	22,995	61,182
Captured net tax capacity:					
Retained by authority	5,427	13,438	38,237	22,715	60,940
Shared with other taxing districts	-	-	-	-	-
Total general obligation tax increment bonds issued	-	-	-	-	-
Amounts redeemed	-	-	-	-	-
Outstanding bonds at December 31, 2002	-	-	-	-	-
	Tax Increment District				
	No. 15-1	No. 16-1	No. 17-1	No. 18-1	No. 19-1
Original net tax capacity	\$ 148	\$ 410	\$ 85	263	\$ 106
Current net tax capacity	6,836	75,162	16,908	1,631	3,370
Captured net tax capacity:					
Retained by authority	6,688	74,752	16,823	1,368	3,264
Shared with other taxing districts	-	-	-	-	-
Total general obligation tax increment bonds issued	-	-	-	-	-
Amounts redeemed	-	-	-	-	-
Outstanding bonds at December 31, 2002	-	-	-	-	-

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

	No. 20-1	Tax Increment District		
		No. 21-1	No. 22-1	No. 23-1
Original net tax capacity	\$ 213	\$ 766	\$ 675	\$ 26
Current net tax capacity	213	766	675	26
Captured net tax capacity:				
Retained by authority	-	-	-	-
Shared with other taxing districts	-	-	-	-
Total general obligation tax increment bonds issued	-	-	-	-
Amounts redeemed	-	-	-	-
Outstanding bonds at December 31, 2002	-	-	-	-

	No. 24-1	Tax Increment District	
		No. 25-1	
Original net tax capacity	\$ 3,012	\$ 347	
Current net tax capacity	3,012	347	
Captured net tax capacity:			
Retained by authority	-	-	
Shared with other taxing districts	-	-	
Total general obligation tax increment bonds issued	-	-	
Amounts redeemed	-	-	
Outstanding bonds at December 31, 2002	-	-	

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

I. Designated Fund Balance

Designated fund balance represents the portion which is based on tentative future spending plans. Fund balance has been designated at December 31, 2002 in the following funds:

General Fund

Designated:

Subsequent years' appropriations	\$ 1,715,927
General contingency for future compensated absences	<u>4,416,931</u>

Totals	<u><u>\$ 6,132,858</u></u>
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Special Revenue Funds

	<u>Library</u>	<u>Municipal Recreation</u>	<u>Law Enforcement Block Grants</u>	<u>Totals</u>
Designated:				
Subsequent years' appropriations	\$ 240,380	\$ 74,519	\$ 90,278	\$ 405,177
General contingency for future compensated absences	<u>325,701</u>	<u>700,087</u>		<u>1,025,788</u>
Totals	<u><u>\$ 566,081</u></u>	<u><u>\$ 774,606</u></u>	<u><u>\$ 90,278</u></u>	<u><u>\$ 1,430,965</u></u>

NOTE 4: Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in the League of Minnesota Cities Insurance Trust (LMCIT) to provide its general liability and property coverage. The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for participating Minnesota cities. All cities in the LMCIT are jointly and severally liable for all claims and expenses of the pool. The amount of any liability in excess of assets of the pool may be assessed to the participating cities if a deficiency occurs. The City purchases commercial insurance for property values in excess of the LMCIT policy limits and all other risks of loss. Settled claims have not exceeded the LMCIT or commercial coverage in any of the past three fiscal years.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 4: Other Information (continued)

A. Risk Management (continued)

The City maintains a self-insurance program for employee group health coverage and worker's compensation. The City has established a Self-Insurance Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program the Self-Insurance Fund provides coverage for up to a maximum of \$225,000 per group health claim (with a variable annual aggregate) and \$700,000 for each worker's compensation claim.

The City purchases commercial insurance for claims in excess of the coverage provided by the Self-Insurance Fund. All funds of the City participate in the program and make payments to the Self-Insurance Fund. The claim liability of \$2,273,994 reported in the Fund at December 31, 2002 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, as amended by Governmental Accounting Standards Board Statement No. 30, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claim liabilities are based on the estimated ultimate cost of settling claims, including specific and incremental expenses, salvage, and subrogation. The claim liability does not include other allocated or unallocated claim adjustment expenses.

Changes in the Fund's claims liability amount during the years ended December 31, 2002 and 2001 were as follows:

Year Ended	Beginning of Year Liability	Current Year Claims and Changes to Estimates	Claim Payments	End of Year Liability
2002	\$2,334,276	\$ 6,577,482	\$(6,637,814)	\$2,273,944
2001	1,948,055	6,688,928	(6,302,707)	2,334,276

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 4: Other Information (continued)

B. Contingent Liabilities

General Litigation:

There are several pending lawsuits in which the City is involved. It is the opinion of management that substantially all of these claims would be covered by the liability insurance of the City and that potential claims against the City would not materially affect the financial statements.

Federally Assisted Programs:

The City participates in a number of federal agency assisted grant programs, principal of which are the Community Development Block Grant, Federal Transit, and Airport Improvement programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of certain programs for or including the year ended December 31, 2002, have not yet been completed. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

C. Commitments

Power Purchase Agreement:

Rochester Public Utilities ("Utility") has entered into a power purchase agreement with Southern Minnesota Municipal Power Agency ("Agency"). Under the terms of the agreement the Agency provided virtually all Utility power requirements through 1999. In 1999, the Utility and Agency agreed to a contract rate of delivery (CROD) beginning in 2000. The CROD caps the amount of power the Agency must supply to the Utility under the power purchase contract. The Utility is responsible for acquiring its power needs above the CROD. The contract expires in the year 2030.

Power Generation Agreement:

In 1992 Rochester Public Utilities ("Utility") entered into an agreement with the Minnesota Municipal Power Agency ("MMPA") to sell a maximum of 100 megawatts of power annually to MMPA beginning July 1, 1995, at a fixed rate. Under the terms of the agreement, the Utility is paid a fixed fee for providing the availability of generating capacity and is reimbursed for the fuel-related costs of generating power. The agreement was terminated on the earliest termination date of April 1, 2001.



**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 4: Other Information (continued)

C. Commitments (continued)

Construction and Equipment Purchase Commitments:

The City has active construction projects and equipment purchase commitments as of December 31, 2002. At year end the City's commitments with contractors and vendors is as follows:

<u>Construction Projects</u>	<u>Remaining Commitment</u>
Street Construction	\$ 2,051,784
Water and Sewer	1,619,512
Sidewalks and Pedestrian Bridges	1,349,833
Fire Station	359,205
Mayo Civic Center	300,206
Traffic Signals	186,050
Storm Water	155,536
Airport Facilities	117,475
Parks and Recreation	39,959
Tax Increment Projects	37,565
Recreation Center	15,680
Other General Government	65,718
Total Construction Projects	<u>\$ 6,298,523</u>
<u>Equipment Purchase Commitments</u>	
Transit	\$ 2,180,167
Airport	50,907
Total Equipment Purchase Commitments	<u>\$ 2,231,074</u>

D. Deferred Compensation

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is generally not available to employees until termination, retirement, death, or unforeseeable emergency.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems

The City participates in a statewide retirement plan administered by the Public Employees Retirement Association (PERA). PERA is the administrator of two cost-sharing multiple-employer retirement plans, the Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PEPFF). PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF and PEPFF. That report may be obtained on the web at mnpera.com, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026. The following disclosures are made in accordance with Statement No. 27 of the Governmental Accounting Standards Board:

1. Cost-Sharing Multiple-Employer  
**Defined Benefit Pension Plans - Statewide**  
Public Employees Retirement Association

A. Plan Description

All full-time and certain part-time employees of the City of Rochester are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERF's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

A. Plan Description (continued)

The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age for unreduced Social security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree -- no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

B. Funding Policy

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 5.10% respectively, of their annual covered salary. PEPFF members are required to contribute 6.20% of their annual covered salary. The City of Rochester is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 5.53% for Coordinated Plan PERF members, and 9.3% for PEPFF members. The City's contribution to the Public Employees Retirement Fund for the years ending December 31, 2002, 2001, and 2000 were \$1,693,144, \$1,507,888, and \$1,432,489, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2002, 2001, and 2000 were \$1,184,732, \$1,138,078, and \$1,058,736, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.